Welsh Assembly finance committee's consultation: Government Draft Budget 2017-18

1 November 2016

In October 2016 the Health Foundation published analysis of the funding pressures for the NHS in Wales to 2019/20 and 2030/31[1]. This submission of evidence summarises the findings and includes additional information in the context of the Wales draft budget for 2017-18 published shortly afterwards.

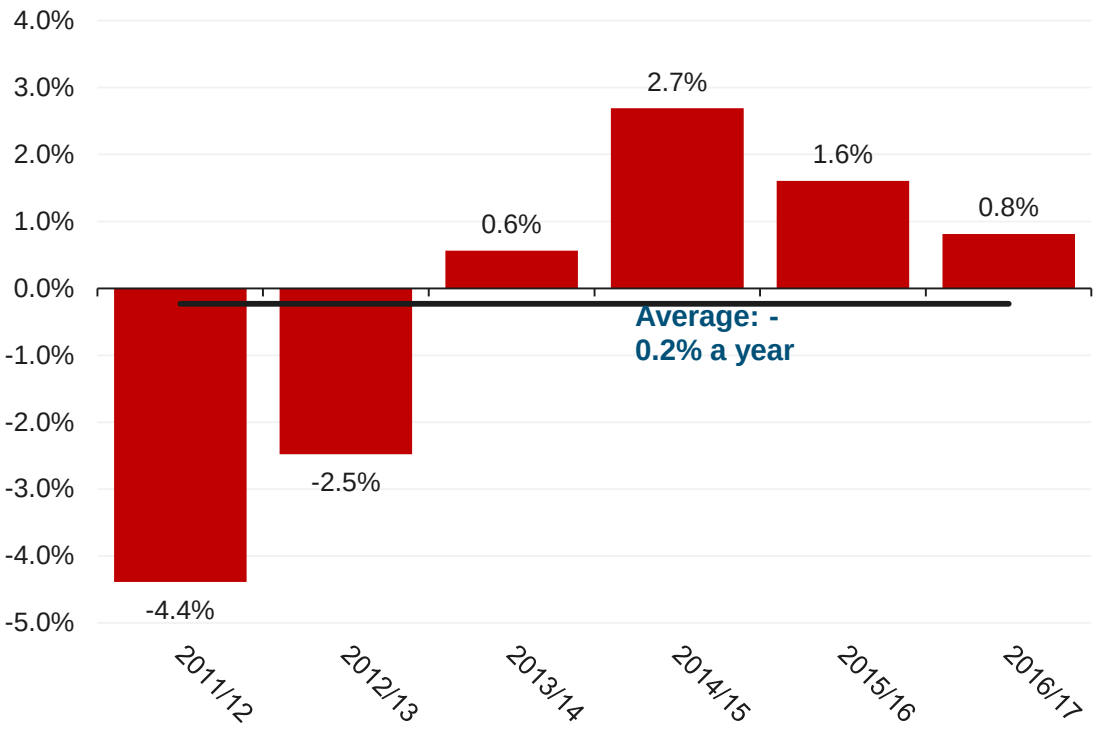
Current position

The total budget for the NHS in Wales in 2016/17 is £6.8bn, comprising £6.5bn for day-to-day running costs (the resource budget) and £0.3bn for capital investment.[2] This has increased by an average of 0.1% a year since 2010/11, with an average real-terms fall of 3.1% between 2010/11 and 2012/13, followed by an average increase of 1.7% a year between 2012/13 and 2016/17. This is lower than the long-run average increase of 3.7% for the UK NHS since 1948.

Over the same period, the population of Wales has grown by an average of 0.3% a year, from 3.05m in 2010/11 to 3.13m in 2016/17. As a result the total NHS spend per head in Wales has fallen by an average of 0.2% a year, from £2,200 in 2010/11 to £2,170 in 2016/17 (Figure 1).

[1] Watt & Roberts. The path to sustainability. Health Foundation. 2016. http://www.health.org.uk/sites/health/files/PathToSustainability_0.pdf
[2] We use the total budget for NHS delivery and health central budgets, as published in the October 2016 draft budget. Welsh Government 2016: http://gov.wales/docs/caecd/publications/161018-budget-tables-en.pdf

Figure 1: Change in spend per head for total NHS budget in Wales.



Since 2010, hospital activity is not generally rising in line with population. The number of outpatient appointments and non-elective admissions per head has fallen by an average of 1.3% and 0.2% a year respectively. While elective admissions have risen by 1.4% a year, the length of stay for both elective and non-elective admissions have fallen by an average of 4.7% and 4.6% respectively (Table 1). This will have contributed towards savings required during this period.

Table 1: Change in acute activity in Wales.

	Outpatient appointments per 1,000 people per year	**Non-elective admissions per 1,000 people per year**	**Elective admissions per 1,000 people per year**	**Average bed days per non-elective spell**	**Average bed days per elective spell**
2010/11	1032	117	158	9.5	2.2
2011/12	1061	117	163	8.7	2.3
2012/13	999	114	161	8.5	2.2
2013/14	1002	116	167	8.2	1.9
2014/15	981	116	167	7.9	1.8
Average change	-1.3%	-0.2%	1.4%	-4.6%	-4.7%

Partly as a result of low funding growth, the NHS in Wales overspent its budget by £50m in 2015/16. This was predominantly due to large deficits of £19.5m for Betsi Cadwaladr University Health Board and £31.2m for Hywel Dda University Health Board. These combined deficits were larger than the combined surpluses reported by the other five health boards and three NHS trusts.

The draft budget for 2017/18 includes an increase for the total NHS budget (NHS delivery and health central budgets) of £271m in cash terms, worth £150m in 2016/17 prices. This is a 2.2% increase in real-terms, higher than the average of 0.1% since 2010/11, and larger than the planned increase for the English NHS of 0.7%. It is an increase of 1.9% per head, which will see total NHS spend per head rise to £2,220.

The extra funds are all allocated to the resource budget, which will rise by 2.7% in real terms. This includes an extra £240m, in cash terms, to support front line NHS services. The capital budget will fall by 10.4% from £264m to £236m (2016/17 prices).

Spending pressures for the NHS in Wales 2015/16 to 2019/20

Our analysis estimates that pressures on the NHS in Wales will rise by around 3.2% a year in real terms, unless efficiency savings are made in how services are provided. This will require around an extra £890m by 2019/20, in 2016/17 prices. If the NHS maintains efficiency growth of 1% a year in line with the historic trend for the UK NHS[1] this would reduce pressures to around 2.2% a year, requiring an extra £600m by 2019/20.

Staff earnings account for around two-thirds of total NHS costs, so any change to pay and conditions will have major implications for total spending pressures. Current national policy is that public sector pay per head should not rise by more than an average of 1% a year in cash terms.[3] This is below the historic trend of 2% a year in real-terms.[4] If this pay deal is held to 2019/20, it would further reduce pressures to an average of 1.2% a year, requiring an extra £320m.

Our report, *A path to sustainability*, was published before the 2017/18 draft budget, so there was no information on NHS spending beyond 2016/17. As a guide to likely spending we used plans for the English NHS, and applied the health specific Barnett consequential to estimate the budget for Wales. This would see the budget rise by an average of 0.8% a year in real terms between 2015/16 and 2019/20. With this assumption, we concluded that a combination of both maintaining efficiency growth of 1% a year and the UK government's pay policy would still leave a funding gap of £150m in 2019/20. Closing this would require efficiency growth of 1.5% a year, which would be above the UK trend but not unprecedented.

The October draft budget announced a larger increase for the NHS resource budget than estimated, rising by 2.7% in real terms. What happens beyond 2017/18 is still unknown, but further increases of this scale would only be possible with substantial reductions in other public services, which may in turn create extra pressures for the

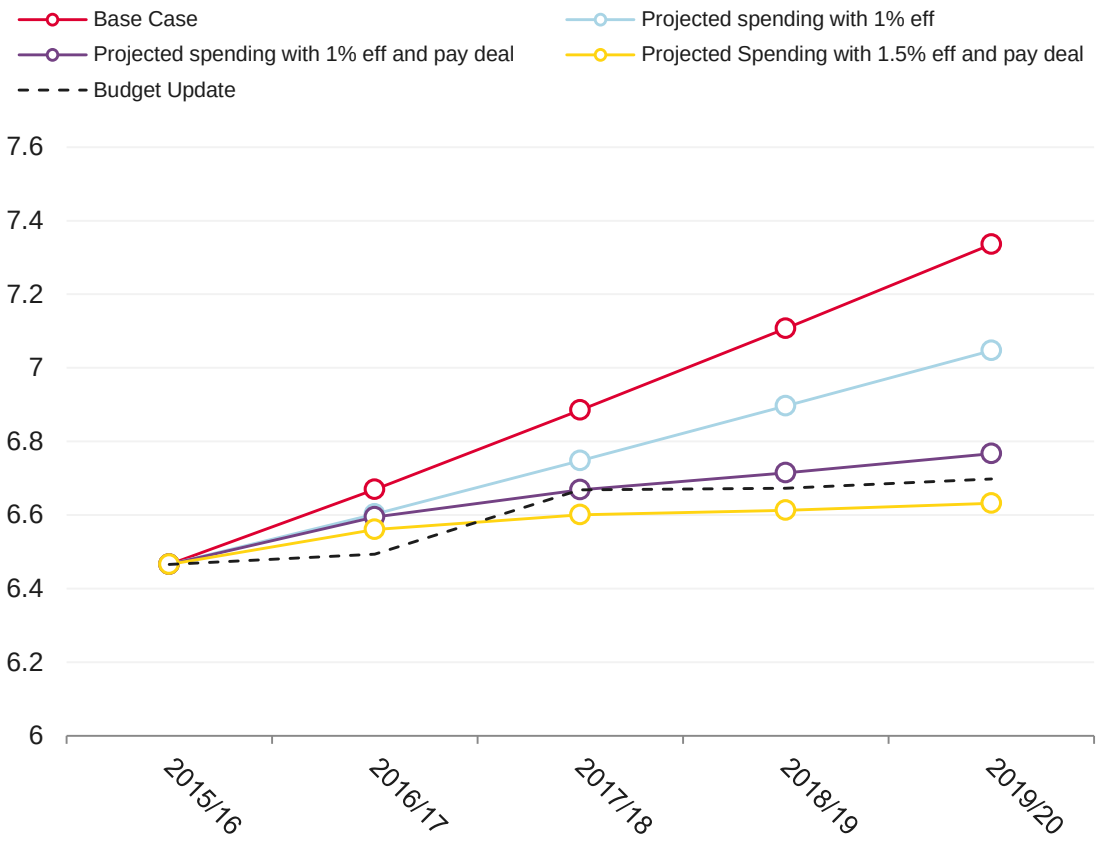
[3] HM Treasury. Civil service pay guidance 2016 to 2017. April 2016. Available via: www.gov.uk/government/publications/civil-service-pay-guidance-2016-to-2017/civil-service-pay-guidance-2016-to-2017
[4] Roberts A, Charlesworth A. A decade of austerity in Wales. Nuffield Trust, 2014.

NHS.[5] If instead, NHS funding in 2018/19 and 2019/20 rises in line with the budget for the English NHS (using the Barnett consequential) then 1% efficiency growth and the national pay policy would still leave a gap of £70m (Figure 2).This is lower than estimated in the report, but would still require an increase in efficiency to around 1.3% a year. If instead, the NHS budget falls back to something closer to our original estimate, in order to provide some relative protection to other public services, then our original estimate of 1.5% efficiency would remain.

In either case, the additional investment for 2017/18 should be treated as a front-loaded investment to allow the NHS to prepare for more austere years that are likely to follow.

Figure 2: Pressures for the Welsh NHS in 2019/20

Projections with different rates of efficiency growth, with proposed budget in 2017/18 and growth similar to English NHS for 2018/19 and 2019/20.

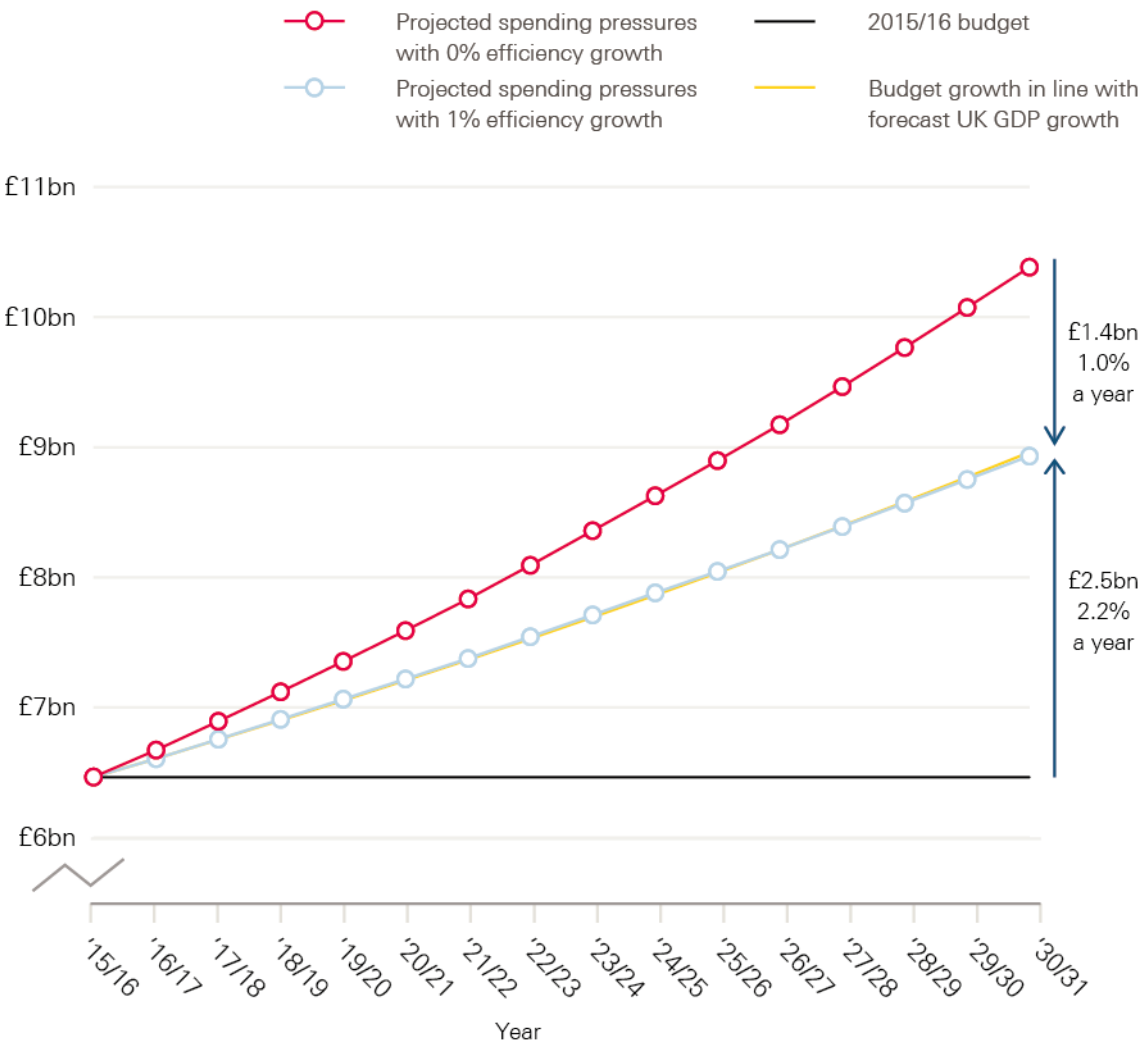


[5] Phillips D, Simpson P. Welsh budgetary trade–offs to 2019–20. Institute for Fiscal Studies, 2016. Available via: www.ifs.org.uk/uploads/publications/docs/IFS%20report%20R120.pdf

Long-term funding pressures to 2030/31

After 2019/20, the UK economy is currently projected to grow by around 2.2% a year in real-terms. If the NHS in Wales maintains efficiency growth of 1% a year, then an increase in the budget of 2.2% a year would be sufficient to maintain the current range and quality of services (Figure 3). So, if funding maintains its share of UK GDP, and the NHS continues to achieve efficiency growth of 1% a year, then it is likely that the NHS could be sustainable for the long-term.

Figure 3: Funding pressures for the NHS in Wales with 1% efficiency growth and budget rising in line with GDP to 2030/31



However, additional efficiency growth would be required if the budget rises by less than 2.2% a year, either because funding falls as a share of GDP, or because economic growth is lower than projected. One major reason that economic growth may be lower is the recent decision to leave the European Union (EU). There is a high level of uncertainty over the likely impact of leaving the EU, but most economists project a

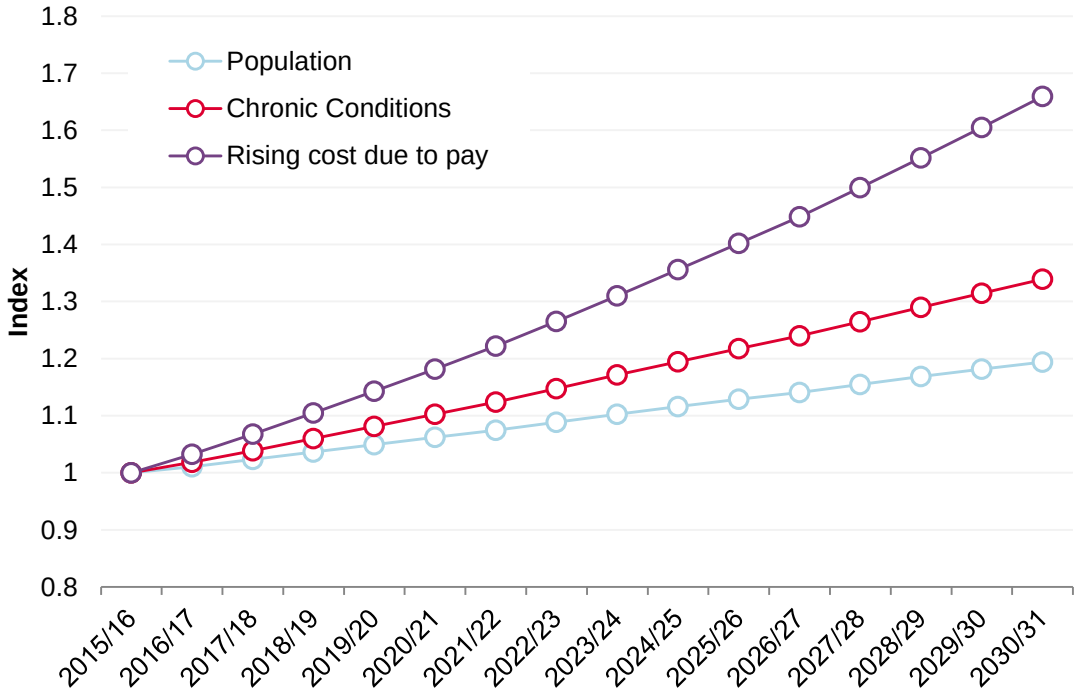
negative impact on economic growth. Based on analysis from NIESR and IFS we estimate that leaving the EU could result in a reduction for the Welsh NHS budget of between £120m and £650m by 2030/31 depending on the level of access to the single market.[1]

Increased funding of 2.2% a year above inflation would maintain current services, but additional funding over and above this would be needed to fund any major improvements to the quality of care.

Main causes for funding pressures

The major factors driving funding pressures in the NHS are a growing and ageing population, an increasing need for treatment of chronic conditions and rising costs of providing care. Based on acute care, which has the highest quality data, we estimate that population alone would increase pressures by an average of 1.2% a year in real terms. The growth in the proportion of people receiving admissions for chronic conditions increases this to 2.0%. The cost of pay rising in line with the long-run trend increases this further to 3.4% a year (Figure 4).

Figure 4: Index of contribution of population, chronic conditions and pay to projected pressures for NHS acute care in Wales (2015/16 = 1).

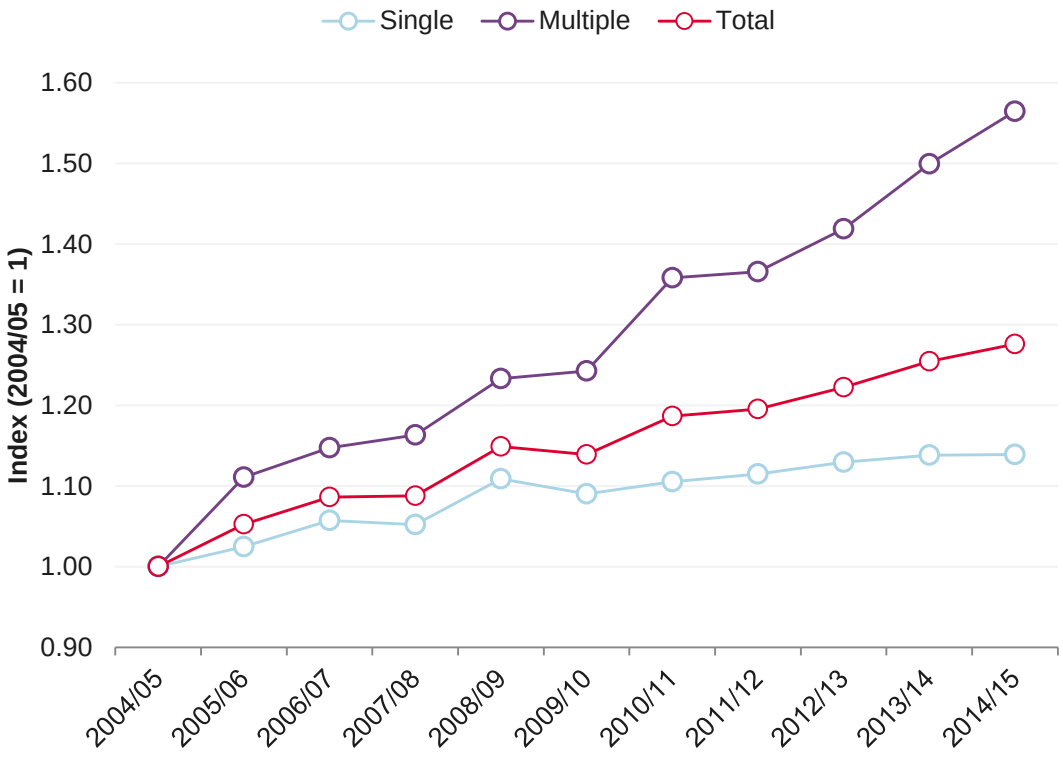


The total population is projected to grow by 6% between 2015 and 2030, while the number of people aged 65 and over is estimated to grow by 29%. The rate of growth for older people is particularly important as the cost of an average person's care rises with their age. For example, total acute care for a female aged between 75-79 will cost an average of 5.4 times a female aged 20-25.

Hospital admissions for people with at least one of 12 chronic conditions from the report[1] accounted for 58% of total inpatient spend in 2014/15, and 72% for people aged 50 and over. The proportion of people receiving care with a chronic condition is rising, for example 1.3% of women over 50 years had an admission related to diabetes in 2014/15, compared to 1.1% in 2004/05.

Additionally, the number of people admitted with multiple conditions is rising faster than for single admissions. Between 2004/05 and 2014/15, the number of people admitted with one chronic condition rose by an average of 1.8% a year, while those admitted with at least two rose by an average of 5.1% a year (Figure 5).

Figure 5: Index of inpatient admissions in Wales for people with a single or multiple chronic conditions (2015/16 = 1).



Chronic conditions are a major cause of the rising funding pressures facing the NHS in Wales, particularly for multiple conditions. How NHS adapts to treat these will have a major impact on the quality and cost of the services provided. Equally the level of investment in prevention will be crucial. One of the major risk factors for chronic conditions is smoking. The prevalence of smokers in Wales fell significantly between 2003 and 2014, from 26% to 19%.[6] However, it is higher than the UK average of 18%. [7]

[6] Welsh Health Survey 2015 http://gov.wales/statistics-and-research/welsh-health-survey/?lang=en
[7] ONS 2015: www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/referencetable06cigarettesmokersbycountry

Another major risk factor is the growing number of people who are overweight or obese. Fifty-nine per cent of people in Wales aged 16 or over were overweight or obese in 2014.[6] This is an increase from 54% in 2003. The proportion of people who are obese has increase from 18% in 2003 to 24% in 2015. While men are more likely than women to be overweight or obese (63% vs 56%), they are less likely to be obese (23% vs 24%). People living in more deprived areas are also more likely to be overweight or obese.

The UK as a whole does not consistently over-perform or under-perform on international benchmarks of healthcare quality and, as with any health system, there is considerable scope to improve quality of care[8]. However, the main risk factors for ill health in the UK are linked to lifestyle and individual behaviour – including smoking, excessive alcohol consumption, lack of physical activity and obesity. These factors place considerable burdens on the NHS[9], but addressing them will require wider policy action not just improvements to health services[10].A strong focus on population health must be a key priority for the NHS in Wales, but much of the improvement in population risk will also need action beyond the NHS.

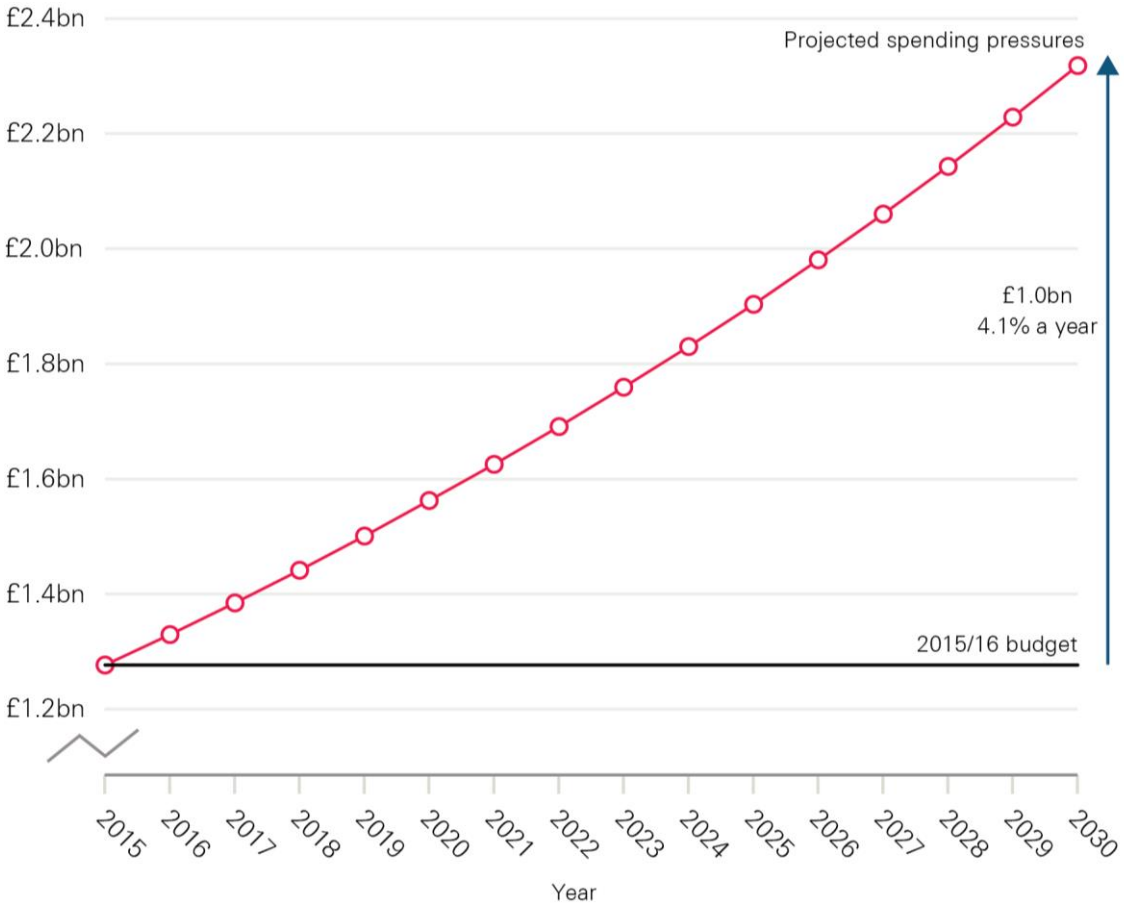
Social care

In 2014/15, Wales spent £1.2bn on personal social services, excluding family and children's services. This is worth around £397 per head of population, higher than in England (£290). This partly reflects estimates of higher needs in Wales, as well as the government's decision not to ring-fence the health care budget in 2011/12 in order to protect other areas of public spending.

We estimate that pressures on social care will rise by around 4.1% a year between 2015 and 2030/31, due to demography, chronic conditions and rising costs. This will require the budget to almost double to £2.3bn by 2030/31 to match demand (Figure 6). The draft budget includes an extra £25m for social services in 2017/18. Although the investment is welcome, unless funding for adult social care rises at the same rate as pressures, or there is a dramatic change in the rate of efficiency growth for social care services, there is a risk that the level of unmet need in Wales will rise.

[8] Kossarova L, Blunt I, Bardsley M. Focus on: International comparisons of healthcare quality. Health Foundation and Nuffield Trust, 2015.
[9] Davies A, Keeble E, Bhatia T, Fisher E. Focus on: Public health and prevention. Health Foundation and Nuffield Trust, 2016.
[10] Organisation for Economic Cooperation and Development. Health at a Glance 2015: How does the United Kingdom Compare? OECD, 2015

Figure 6: Projected cost pressures for adult social care in Wales



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